



## ERIK PENSER BANK

Penser Access | Finans | Sweden | 30 June 2021

# Quickbit

## Crypto company on the move

### Quickbit

Quickbit is a fintech operating in the cryptocurrency segment. At present, the company's revenues are generated exclusively by fintech solutions for European companies in the i-gaming segment, but Quickbit is poised to also launch solutions in the B2C segment, such as the option to use cryptocurrencies for ordinary card payments. Notably, cryptocurrency price trends have no direct impact on Quickbit's financial performance.

### DeFi potential

Whether cryptocurrencies will become an important means of transaction in the future is an important question for Quickbit, and we believe they could be. We estimate that DeFi (Decentralised Finance) solutions will see significant development in the next 20 years. Quickbit should be able to capitalise on this, but will encounter significant global competition because cryptocurrencies are a global means of payment.

### Fair value SEK 12-13

Regulations like those in China, where there is a national ban on cryptocurrency fintechs, would have very serious impact on Quickbit. Although we assess the probability of this type of regulation as low in Sweden, the risk to the share is high. However, there is also great potential and the Quickbit app could create a significant cryptocurrency ecosystem. We estimate a fair value of SEK 12-13 at WACC of 12%.

Estimatändring (SEK)			Prognos (SEK)				Risk och Avkastning			
	Nu	Förr		20e	21e	22e	23e	Motiverat värde	12.00 - 13.00	
EPS, just 21e	0.61	0.61	0.0%	Sales,m	4,614	3,817	4,986	6,154	Current price	SEK9.00
EPS, just 22e	0.5	0.5	0.0%	Sales Growth	0.0%	27.2%	20.7%	17.7%	Riskenivå	High
EPS, just 23e	0.66	0.66	0.0%	EBITDA, m	99	74	70	89	<div style="text-align: center;"> <b>Kursutveckling 12 mån</b> </div>	
<b>Kommande händelser</b>				EBIT, m	94.0	64.0	56.1	74.6		
				EPS, adj	1.29	0.61	0.50	0.66		
11 augusti				EPS Growth	0.0%	(52.5)%	(19.1)%	33.5%		
				Equity/Share	2.2	3.8	4.3	4.4		
<b>Bolagsfakta (mkr)</b>				Dividend	0.00	0.00	0.00	40.00		
				EBIT Marginal	2.0%	1.7%	1.1%	1.2%		
Antal aktier				ROE (%)	49.2%	18.9%	14.9%	19.1%		
				Market cap	88.4m	796	796	796		
Nettoskuld				ROCE	49.0%	18.9%	14.9%	19.1%		
				EV/Sales	(117)	0.15x	0.18x	0.14x	0.11x	
EV				EV/EBITDA	679	6.9x	9.2x	9.7x	7.7x	
				Free Float	62.00%	7.2x	10.6x	12.1x	9.1x	
				P/E, adj	7.0x	14.7x	18.1x	13.6x		
				P/Equity	4.2x	2.4x	2.1x	2.0x		
				Dividend yield	0.0%	0.0%	0.0%	0.6%		
				FCF yield	(1.7)%	15.9%	5.0%	6.9%		
				Net Debt/EBITDA	(0.0)g	(3.3)g	(4.0)g	(3.2)g		
								<b>Analytiker</b>		magnus.skog@penser.se



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# Sammanfattning

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## Crypto company on the move

### Investment Case

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#### Revamp of the business

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In our view, Quickbit is a completely different company that it was just a year or two ago. The business model has changed, in that the business is now mainly based in Europe, while we assume that a large proportion was previously based outside the EU. The previous business model was riskier and more capital-intensive. We believe the shift towards Europe is clearly positive. Quickbit has also replaced most of the board of directors and brought in highly qualified names like Jan Frykhammar, the former CFO of Ericsson. Finally, the company is launching its consumer app in 2021, which is based on a radically different business model compared to the one that came before it. We believe Quickbit is a more stable, less risky and better company than it was one year ago.

#### Cryptocurrencies have network effects

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The more people who use cryptocurrencies, the more valuable they become, because the number of applications rises. Accordingly, cryptocurrencies clearly have a network effect. In our assessment, the network effect for cryptocurrencies has contributed to significant milestones in the last year. For example, El Salvador has made Bitcoin legal tender and Micro Strategy has begun keeping its cash reserves in bitcoin. The uncertainty stemming from Covid-19 and the flood of new money created by central banks in 2020 has corroded views on fiat currencies in the eyes of many and, by comparison, improved their views on cryptocurrencies. Without making any forecast on the future price trend, we believe cryptocurrencies are here to stay and that the last year has accelerated the development.

#### Potential exposure in DeFi

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We believe DeFi (Decentralised Finance) is a highly interesting area within cryptocurrencies and that numerous features will be developed for DeFi going forward. An ecosystem is created within the Quickbit app in which additional features can be integrated, meaning the company is positioned to exploit the growth in DeFi that we expect. At present, DeFi is a new and underdeveloped area with few concrete investment opportunities, especially among Swedish companies. At the least, Quickbit entails future potential to be exposed to a more fully developed DeFi system. However, we recognise that DeFi is in its infancy and that it is going to be a long time before it is fully developed and widely used.

#### Bolags profil

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Quickbit is a fintech operating in the cryptocurrency segment. At present, revenues are generated exclusively from i-gaming companies based mainly in Europe. Quickbit is, however, poised to also launch solutions in the B2C segment, such as the option to use cryptocurrencies for ordinary card payments. The company has also developed an app, for which 10,000 people have signed up for early access. We believe the app will eventually be able to create an ecosystem for cryptocurrency transactions in which it should be possible to integrate emerging solutions. The company is based in Stockholm and had 47 employees as of the last quarterly report.



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# Sammanfattning

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Crypto company on the move

## Värdering

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We applied a DCF model to arrive at a fair value of SEK 12-13 per share. Our WACC is 12%, reflecting our estimation of high risk in the company.

## Glossary

- **Mining/Miners/Mine:** These terms within cryptocurrency describe the building of new transaction blocks by verifying transactions. Fees are charged for this work.
- **Proof of stake:** A protocol by which a holder of cryptocurrencies can validate transactions depending on how much of the cryptocurrency the holder owns.
- **Proof of work:** A protocol where cryptocurrency transactions are validated depending upon how much computing power the holder contributes to the network.
- **Ethereum:** A platform upon which the cryptocurrency Ether is traded. Founded in 2015, Ether is the second-largest cryptocurrency in terms of market value, after Bitcoin.
- **Bitcoin:** The biggest and most widely used cryptocurrency. A digital currency that allows transactions without intermediaries such as banks, governments, etc.
- **DeFi (Decentralised Finance):** Financing based on blockchain technology that excludes traditional intermediaries and instead relies on smart contracts.
- **Private Key:** A code used to access the owner's cryptocurrency wallet/account where the cryptocurrency is kept. Also used together with the public key (see below) to execute transactions.
- **Public Key:** A code that can be obtained and used by anyone to encrypt messages sent to a recipient when cryptocurrencies are transferred.
- **Mining pool:** A network of computers that work together to verify transactions. Mining pools make it possible to split the reward for verification of transactions more equally.
- **Smart Contracts:** Contracts that exist in the blockchain. They perform the aim of the contract when specific terms and conditions are met.
- **Blockchain:** A decentralised database in a network where all transactions or events are stored and which is virtually impossible to manipulate.
- **Bank-run:** A phenomenon where bank customers withdraw all of their deposits due to concerns that the bank may become insolvent.
- **Acquiring Bank (Acquirer):** Bank that executes the transfer from a payer to a recipient in a transaction.
- **Chargeback :** Repayment made in connection with transactions. Often stated as a percentage of the total purchase amount. May be due to a debit card having been hacked online.
- **Igaming:** Umbrella term for online casino gaming.
- **B2C:** Business to Consumer. Trade in goods or services between businesses and consumers.
- **CAC:** Customer Acquisition Cost. What it costs a company to acquire a new customer.
- **Crypto Evangelists:** Consumers who are convinced of the potential of cryptocurrencies. They are often spokespersons or promoters of cryptocurrencies.
- **Fiat currencies:** "Ordinary" currencies that work as money/legal tender. Fiat currencies normally have no intrinsic value and have a value only because governments or central banks have assigned them one.

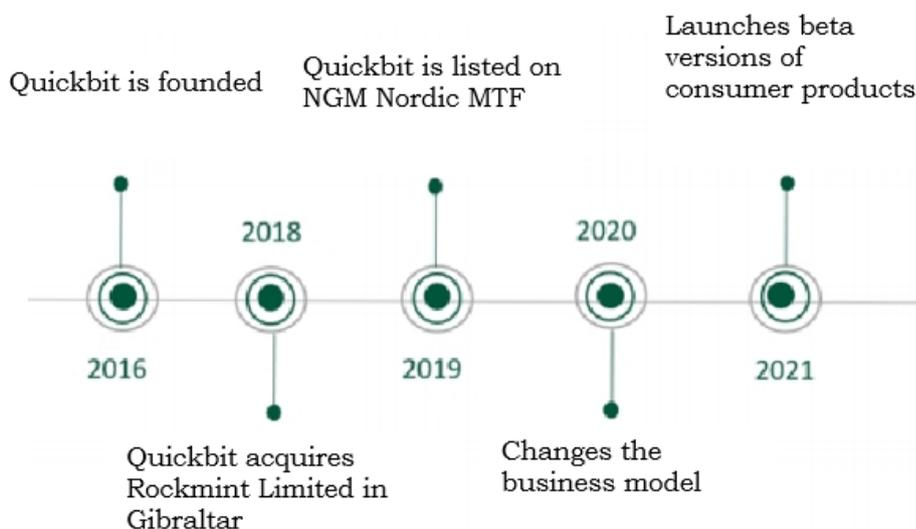
## Background

Quickbit was founded in 2016 and has significantly revamped its business in the last year. The company has replaced a considerable contingent of the board of directors and brought in highly regarded names like Jan Frykhammar, a former CFO of Ericsson.

Then and now, Quickbit generates revenues by selling cryptocurrency to consumers, who spend them with i-gaming companies. We assume that revenues were previously generated almost exclusively from customers outside Europe, but we understand that the majority of customers are now found in Europe. The background to the revamp is that conditions are substantially better for Quickbit in Europe as far as the cash conversion cycle and certainty in the business model.

In the US, Quickbit was forced to provide a substantial collateral deposit to be able to execute transactions. The restricted working capital amounted to the considerable sum of SEK 119 million at the end of the first quarter of 2020, compared to SEK 30 million in gross profit. The model put severe limits on how fast Quickbit could grow without raising fresh capital. The transition to European customers was thus logical and, in our view, necessary. As we see it, Quickbit is virtually a new company today compared to what it was only one year ago.

### Quickbit timeline



## The cryptocurrency market

Quickbit's business is entirely dependent upon trading in cryptocurrency. Accordingly, we will start with the market section and devote much of the analysis to it. A brief explanation of how we understand the situation follows:

- Ordinary bitcoin is unlikely to become a means of payment used by the masses because relatively few transactions can be executed per second. The system also requires too much energy and impacts the environment.
- On the other hand, we believe other cryptocurrencies have the potential to become large-scale means of payment.
- We have identified a threat to cryptocurrencies in the form of regulations.
- In our view, cryptocurrencies are going to be around for the foreseeable future.
- We believe blockchain technology is going to lead to interesting large-scale applications, such as DeFi, which will solidify the future position of cryptocurrencies.

## How cryptocurrencies work

We will provide a simplified explanation of how cryptocurrencies work and minimise the use of new terminology to make it as easy to understand as possible. Readers who are not interested in the actual technology behind cryptocurrencies can skip to the "Cryptocurrency market analysis" section.

Cryptocurrency systems are built up of a network of large numbers of computers all over the world whose purpose is to execute and verify transactions. In this way, cryptocurrencies are decentralised and, unlike fiat currencies, there is no government or central bank that validates their value. Individuals can also connect to the network and begin to validate transactions.

Instead of trust in the system being based on the authority of a central organisation or government, trust in cryptocurrencies is based mainly on the fact that no central organisation can affect the currency.



*Cryptocurrencies and blockchain are based on a decentralised model in which computers all over the world are connected into a network. Some people describe this as the creation of a "supercomputer".*

Transactions in cryptocurrency are verified by the computers in the network and subsequently stored in a block of transaction information. This block of information is stored in a public information chain, where all previous transaction blocks are stored. This is where the term "blockchain" comes from.

In the decentralised model, the system cannot be taken over by hacking a few individual computers. A hacker would have to have control over the majority of the computers in the network to take over the system.



*Blocks of transaction history in a chain of information led to the term “blockchain”.*

Transaction information is public, transparent and stored on multiple computers in the network. The information cannot be altered or manipulated because it would then not agree with the information in the other computers in the network.

Information about the transactions is public, yet anonymous. This is possible because each user has a private key (a private code). The key is necessary to gain access to the user’s account and execute transactions. Without the key, the public information is nothing more than code and numbers.

### **How cryptocurrency transactions are executed**

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To execute cryptocurrency transactions, each person has a private key and a public key. The private key is used to create the transaction. The public key is used in a formula by the other computers in the cryptocurrency network to verify that it is actually the right person carrying out the transaction, i.e., that the signature belongs to you. A new signature is auto-generated for each transaction, which means no one can re-use an old signature. Only the holder of the private key can auto-generate a new signature.



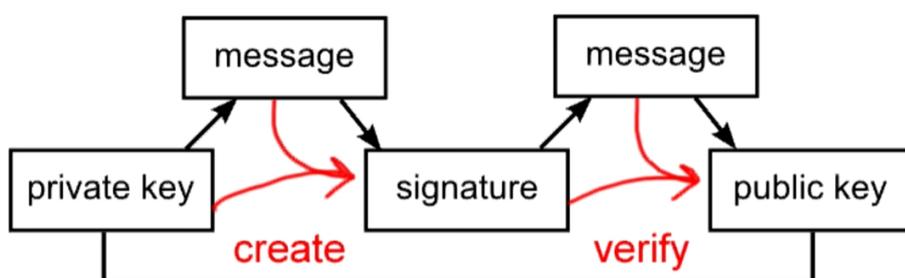
*Cryptocurrency transactions are executed by entering “keys” (codes) into preset formulae that verify the transaction.*

The signature for the transaction is made up of 256 characters, which means that the number of combinations for a signature is 2 raised to the power of 256. Guessing such a large number is virtually impossible and, as mentioned earlier, the signature changes for each transaction. The technology enables a very high level of security without involving a central organisation or bank.

But how can all the transaction information in the blockchain be identical and in the exact same order on all the computers in the global network? How is someone prevented from registering fake transactions?

The computers in the network must solve a complex mathematical formula to validate the transactions. The computer that solves the mathematical formula first adds the block to the blockchain (the public information that includes all registered transactions).

The following illustration shows how transactions are verified using the formula. However, you do not need to understand the illustration to understand Quickbit.

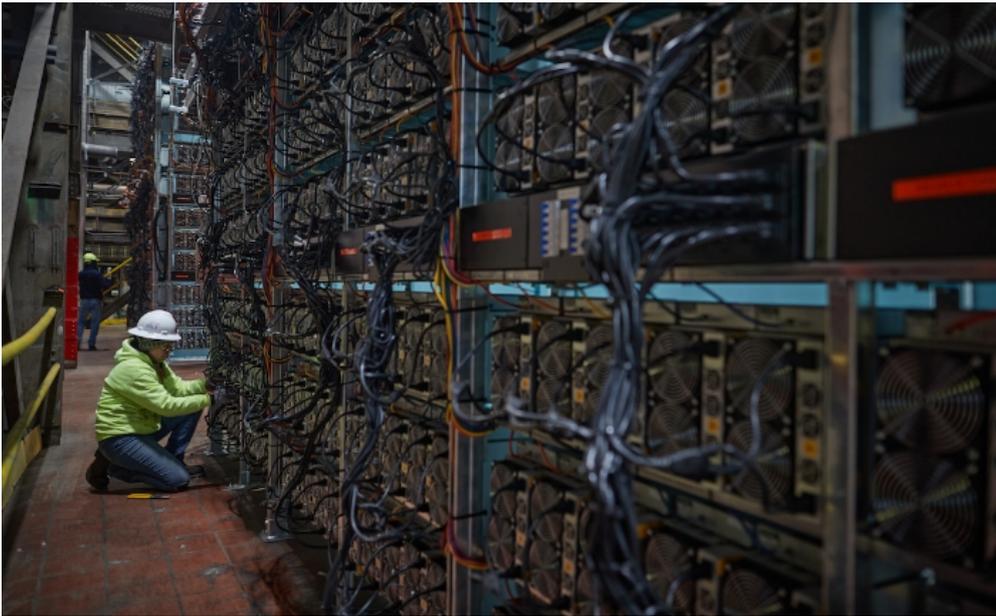


Verify:  $1 = ? v(\text{signature}, \text{message}, \text{public key})$

*The private key creates a message with the transaction that is signed and later verified using the public key. The computers use a preset formula to accomplish this.*

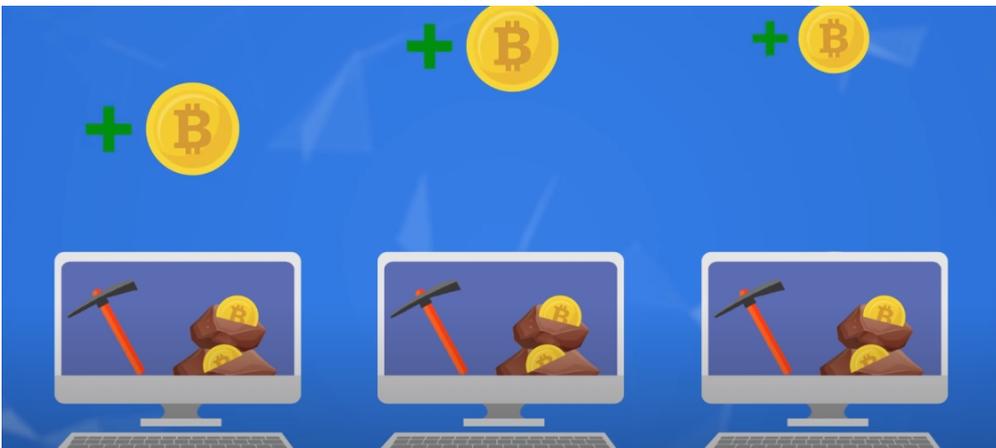
It takes a lot of work to create the block, which enhances security. The system selects the one that has built the longest blockchain, which means that a fraudster would have to continue to solve the mathematical problems before everybody else does it together. Otherwise, the fraudster's blockchain will not match everyone else's blockchain. If the fraudster does not have at least 50% of all the computing power in the network, this will be virtually impossible in the long run. On the other hand, there are also drawbacks to basing system security on allowing the party with the most computing power and the most electricity to verify the transactions.

The computers that solve these mathematical problems for Bitcoin, for example, use about as much electricity as the Netherlands, or about 0.5% of the electricity used every year on the entire planet. This provides a rough indication of how many computers would have to be bought and how much the electricity would cost to be able to mount an attack against the entire network. Naturally, this would be somewhat easier for smaller cryptocurrencies.



*Solving the mathematical problems to verify transactions (“mining”) has become an industry in which data centres are built in which huge numbers of computers are connected.*

As a reward for doing the work to verify transactions, new cryptocurrency is created and distributed to the party that solved the mathematical problem. This is also called “mining”, where people “dig” new digital coins for themselves by lending their computers to the network. Senders usually also pay miners a small transaction fee for their work. For the cryptocurrencies that are set to not increase in number, the miner receives only the transaction fee.



*Miners are paid for using their computers to solve mathematical problems and thus verify transactions, which is called “mining”.*

## Various cryptocurrencies

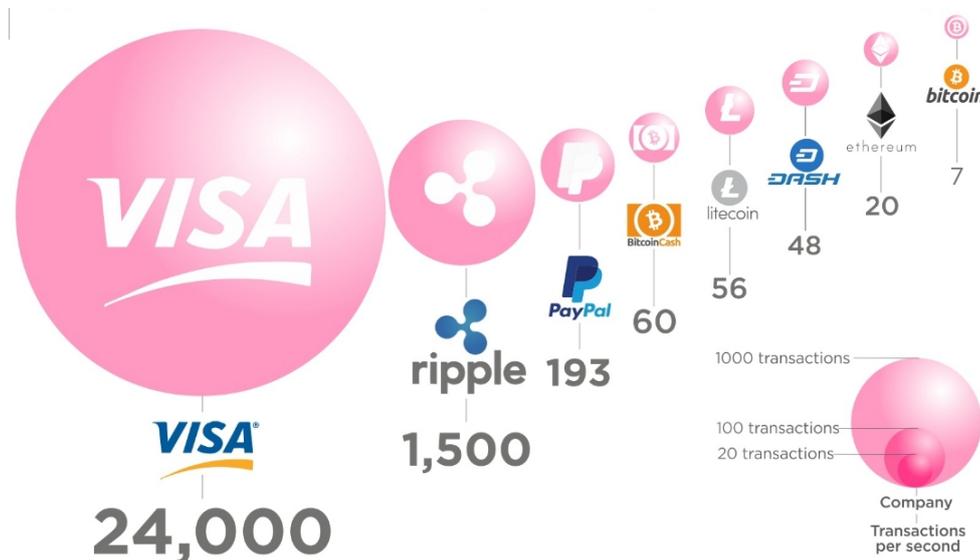
A brief review follows of the two biggest cryptocurrencies today: Bitcoin and Ethereum. We have limited our report to facts relevant to Quickbit and the review is thus not exhaustive.

### Bitcoin

Bitcoin is the most well-known cryptocurrency in the world and has a market cap of about USD 9 billion. By comparison, the market cap of the biggest company in the world is about a quarter of that. Bitcoin is probably the most secure and decentralised cryptocurrency, as there is no founder left that manages it and enormous resources are required to hack the network.

In summary, we estimate that Bitcoin will be the main means of cryptocurrency transactions over the next few years due to its strong recognition factor, but we see a brighter future, relatively speaking, for certain other cryptocurrencies. The reason is Bitcoin's low transaction speed and negative environmental impact.

We assess Bitcoin as more of a "digital gold" than a future challenger to USD as a means of payment. This is due mainly to the low number of transactions per second that can be executed using Bitcoin. The following illustration shows the number of transactions per second that can be carried out in various systems. As shown, there is a huge difference between Visa (24,000) and Bitcoin (7). There is a spin-off called Bitcoin Cash, but this cryptocurrency also lags far behind Visa in transaction capacity.

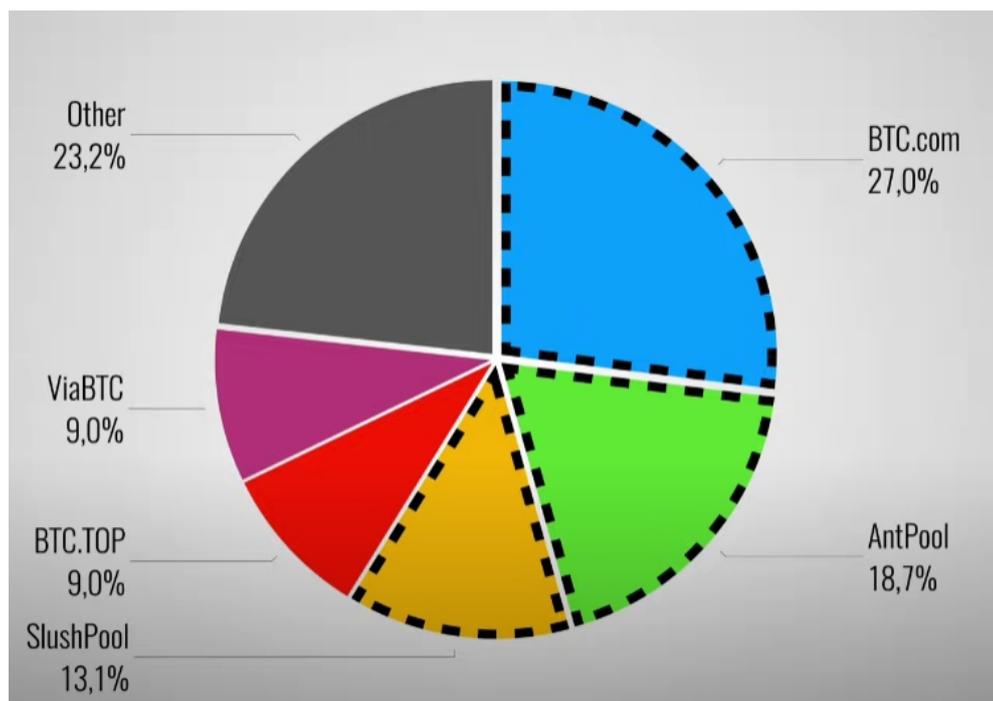


The main reason for the lower transaction speed is the Bitcoin verification system. Huge computing power is used to verify the transactions because this increases security. But it also means that a higher number of transactions becomes problematic, because as the number of transactions increases, so does the required computing power. In extreme cases, the fees for executing a transaction have risen as high as in excess of USD 30 per transaction due to a shortage of computing power in the system.

Another problem is that there are economies of scale in verifying Bitcoin transactions (mining), which leads to centralisation of the system. It requires a great deal of energy to cool down the computers that are used and the

price of electricity is a key factor in the profitability of mining. For this reason, large data centres have been built in cool places where electricity is cheap, something with which an ordinary private person can hardly compete.

The economies of scale have led to centralisation of transaction verification. The illustration below shows how centralised the system has actually become. Miners have increasingly chosen to join together in “mining pools” because this generates more even revenue streams from mining. Because fraud is possible with more than 50% computing power, the three largest mining pools could, in theory, work together and attack the Bitcoin system. However, there are several different miners in each mining pool, which makes it very unlikely this will happen.



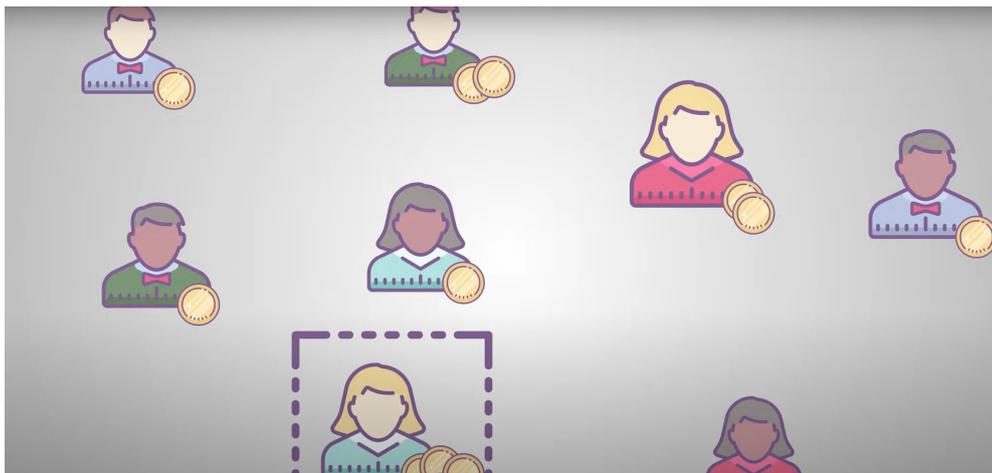
*In mining pools, computers link up in a network to verify transactions. Mining pools combined with economies of scale are leading to the centralisation of the Bitcoin system.*

Of the biggest factors in Bitcoin’s favour is the first-mover advantage. Bitcoin was the first cryptocurrency to break through on a broad front; as a result, Bitcoin is now the most common and well-known cryptocurrency. Trust is everything when it comes to currencies, and although other cryptocurrencies have better technology, it is hard to compete with the global trust in Bitcoin that has been built up through its recognition factor. As well, the system is clearly one of the most secure, considering the vast resources required to attack the network.

For that reason, we believe Bitcoin will have a place in the future, but more as a digital gold than a means of payment used by the general public. There are spinoffs of Bitcoin, such as Bitcoin Cash, that have faster transaction speed. But in our view, Bitcoin Cash is also trumped as a future means of payment by the second-largest cryptocurrency in the world: Ethereum.

## Ethereum

We believe the prerequisites for working as a means of payment are better for Ethereum than for Bitcoin. Ethereum also has a significant market cap – bigger, for example, than all listed companies in Sweden combined. Ethereum has been around for six years and is in the process of being updated to “Ethereum 2.0”, which will entail a radical change to the nature of the currency. One of the biggest differences is that instead of the size of computing power determining the probability of verifying a block, the probability will be determined by the size of the Ethereum capital put up by users. This concept is called “Proof of Stake”.



*According to the Proof of Stake protocol, who validates transactions is determined by how much money the individual has deposited or “lent” to the network. The more capital the individual has deposited, the more likely it is that they will be selected.*

Ethereum 2.0 entails a number of differences.

- It will be possible to execute transactions considerably faster because less computing power is required. The goal is to be able to execute around 100,000 transactions per second, compared to only 7 for Bitcoin. As we see it, this means Ethereum 2.0 has the potential to become a fully functional means of payment.
- Unlike Bitcoin, there are no economies of scale in mining, which preserves the decentralisation. The advantage of access to cheap electricity and large server centres shrinks dramatically. For that reason, it becomes less likely that over 50% could attack the network. In addition, there are built-in mechanisms that further reduce the risk of attacks.

Setting aside a majority attack, however, a research paper called “Ouroboros: A Provably Secure Proof-of-Stake Blockchain Protocol” claims that Proof of Stake is less secure than Proof of Work because less computing power is needed for verifications. We believe it is reasonable to assume that Proof of Work is slightly less secure than Proof of Stake but it is still hard to hack the system.

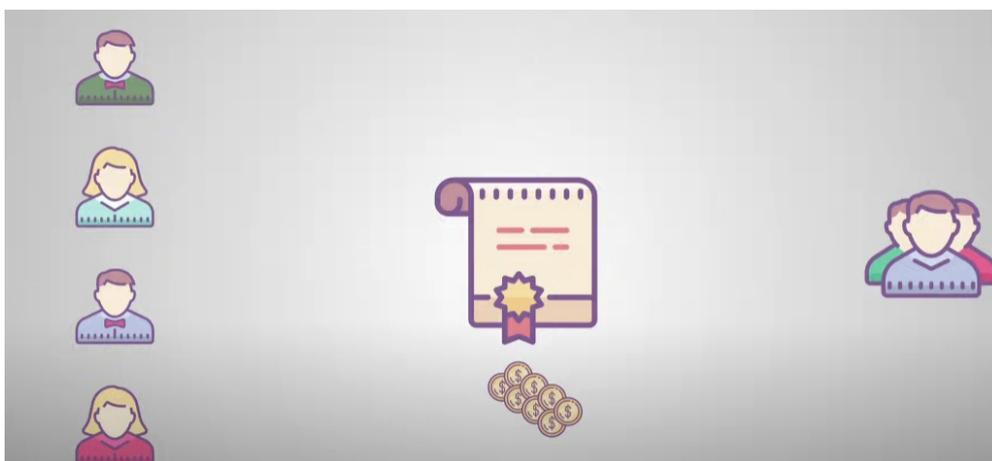
## DeFi – Decentralised Finance

Ethereum is much more than just a currency, it is a platform where decentralised applications can be developed that subsequently use cryptocurrencies as means of payment. DeFi (Decentralised Finance) is a financial system based on cryptocurrencies and blockchain technology. Various financial services can be programmed and developed through

the Ethereum platform, for example. The services then use blockchain technology, which results in security and transparency because everything is available in public documents, which can simultaneously offer anonymity.

The main advantage of DeFi is that the system eliminates the need for trust. A central organisation like a bank normally needs to generate trust in transactions. Most people trust banks enough to keep their money for them and let them carry out major transactions like buying a house. But as long as the user trusts blockchain technology, there is no need for intermediaries like banks and thus there is no need to trust people. The trust is based on that all the information is stored publicly and the transactions have to be verified by the network. This aspect cannot be offered by the technology underlying current financial systems. The decentralised network offered by blockchain technology thus enables numerous new areas of application.

One potential area of application for DeFi would be for private individuals to lend money. Blockchain technology and smart contracts make it possible for individuals to lend to other individuals with no involvement by banks. In smart contracts, automatic functions are programmed into a contract that are activated when the contract is performed. For example, a borrower can deposit a cryptocurrency as collateral in a smart contract, allowing them to borrow from someone else in the network. If the borrower later fails to pay back the loan, the money deposited in the smart contract is automatically transferred to the lender. This is only one example among many different solutions.



*Money can be deposited in smart contracts to act as collateral for loans. Smart contracts are part of the Ethereum technology and offer pre-programmed functions, such as sending money back to the lender automatically if the borrower breaches the contract.*

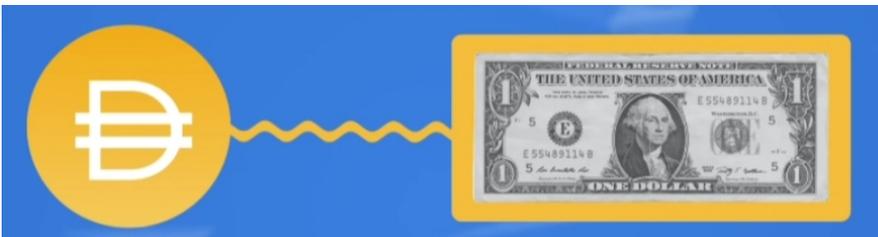
Larger-scale lending is also possible through a group of individuals depositing money into a pool that others can borrow from. This enables greater flexibility in lending and can collectivise losses if loans are not repaid.

Moreover, it will be relatively easy to build complex financial solutions by adding new criteria or functions to the smart contract. If there are pre-programmed functions like options and loans, these can be selected and put together to build new and unique solutions. In theory, complex financial instruments could therefore be integrated by simply selecting the preferred functions. When the need to trust people is eliminated and everything is automated, costs can be reduced and the financial system streamlined.



*Using DeFi, complex financial solutions can be put together like Lego bricks to create tailored solutions. The blockchain eliminates the need for intermediaries, which opens the door to more players and simpler execution.*

Stablecoins are cryptocurrencies pegged to the value of USD, for example. The value of Stablecoins thus develops on par with other specific currencies. Stablecoins are a key base in DeFi because the high volatility of cryptocurrencies creates problems in connection with loans and other financial services, for example.



*Stablecoins are pegged to the value of specific currencies.*

Although DeFi technology is interesting and large-scale usage should be possible in the future, there are serious risks and problems associated with the model. Lending money without knowing the borrower's credit rating is one of several significant risks at present. Another is that there is no bank to contact if something goes wrong or fraud is committed.

DeFi does, however, make it considerably easier to provide financial services in several developing countries where the financial system is not particularly advanced. An individual in Stockholm could, for example, easily lend money to a farmer in Kenya. All that is needed is for both to have access to a computer with an internet connection and use the Ethereum network. As mentioned previously, the global, decentralised network of computers behind Ethereum guarantees due and proper transactions and no international transaction fees or interbank transfers are necessary. The solutions are standardised, but can also be combined to meet individual needs. Insurance would be another potential area of application.

We see several barriers to DeFi, particularly the legal aspects. Without a centralised intermediary like a bank, it becomes more difficult to check for money laundering. There is currently intense focus on preventing money laundering, which is likely to be a challenge for DeFi. But we believe the technology is extremely interesting and do not dismiss its significant potential in the future, especially for developing countries. Reducing intermediaries cuts

costs and can improve the efficiency of the financial system. Consequently, we have identified an eventual threat to institutions such as banks in their current guise. However, we believe any large-scale breakthrough for DeFi is several years off.

Overall, our view is that Ethereum has many interesting potential areas of application and considerably greater opportunity than Bitcoin to become a means of payment used by the general public. The following companies all have some form of collaboration with Ethereum, which indicates the significant position of the currency today, both in the cryptocurrency world and society in general.



Finally, it should be noted that cryptocurrencies are constantly developing and many different technologies are being used to execute transactions. Certain cryptocurrencies that are not dominant today may become so within a few years.

## Cryptocurrency market analysis

### A breakthrough year

The past year has been a breakthrough year for cryptocurrencies. To work as means of payment, currencies must be trusted. A few of the most important events that have increased trust in cryptocurrencies in the past year are:

- Several billionaire celebrities like Elon Musk and Mark Cuban have talked about cryptocurrencies in glowing terms and have made substantial investments in them. Several successful and relatively well-known Silicon Valley business figures have done the same.
- Large, listed companies that have no business activities linked to cryptocurrencies like Tesla and Micro Strategy have purchased bitcoin worth billions of SEK.
- Central banks have created huge sums of new money. For example, more than 20% of all USD ever created was created in 2020. This has triggered fear of inflation and reduced trust in fiat currencies in relation to cryptocurrencies. For example, Bitcoin has a maximum increase of the money supply of 1.8% annually and therefore has no inflation risk.
- Salvador has recognised Bitcoin as legal tender in the country.
- Trust in governments and central institutions has declined during the Covid-19 pandemic in much of the world. Even though protests against lockdowns have not been as widespread in Sweden as in other countries, trust in the Swedish Government and the Civil Contingencies Agency has dropped by 30-50% since the pandemic began. When trust in governments declines, trust in cryptocurrencies usually increases in relative terms because they are decentralised.
- Visa, Mastercard and Paypal have begun accepting cryptocurrencies.

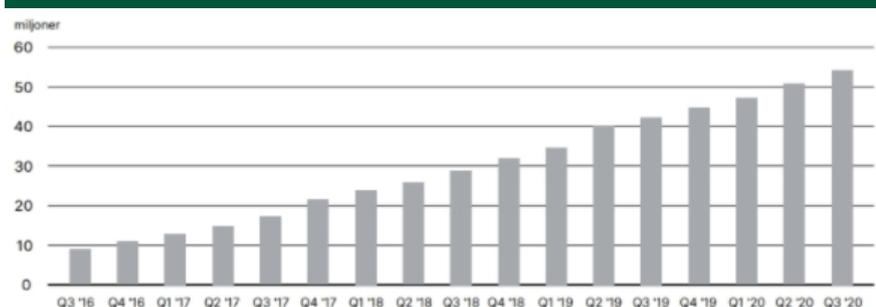


*Tesla, currently the most highly valued carmaker in the world, has purchased bitcoin worth more than a billion USD.*

As we see it, events in the past year have been a catalyst in the acceptance of cryptocurrencies. Trust in governments may rise again after the pandemic and injections of money into the market will probably decline in the near future. That notwithstanding, the last year has been a breakthrough year for cryptocurrencies that will in our assessment have significant consequences for the future.

Moreover, the cryptocurrency trend is far-reaching and although cryptocurrency prices are volatile, there is a steady increase of new digital wallets that contain cryptocurrencies, as illustrated in the chart below.

## Global development in the number of digital wallets 2016-2020



## Advantages and drawbacks of cryptocurrencies

Whether cryptocurrencies will begin being used as a means of transaction on a large scale is an important question with regard to Quickbit's B2C solution. We have identified a number of advantages and drawbacks to cryptocurrencies as a means of transaction, as below.

Identified advantages:

- Probably the biggest advantage is that all information is public and cannot be altered afterwards, which eliminates the need for trust. Smart contracts allow the code in the contract to determine the outcome and the contract cannot be altered without the other party's consent.
- It will be considerably easier to execute international transactions. Firstly, cryptocurrencies are global, which of course eliminates the need to convert currencies. Secondly, it is faster and adds no additional costs, which international transactions in fiat currencies can do.
- Inflation is limited, especially in Bitcoin. Bitcoin has a maximum number of digital coins that will be produced. That does not apply to fiat currencies, which became very clear in 2020. The large-scale creation of new money leads to asset inflation for e.g., real estate denominated in fiat currencies, which may also lead to rising CPI (consumer price inflation). Extreme examples like Venezuela accentuate just how bad things can get.
- People and businesses have total control over their money. The money is not kept in a bank that can freeze an account or allow a state seize control of it.
- Reduces the power of the US. This is particularly attractive for countries like Russia and China. At present, the international currency system is based on USD, which gives the US a great deal of power over other nations. China and Russia have already communicated their desire to replace this system and cryptocurrencies may be the solution.
- Apart from the fact that exchange platforms can be hacked, cryptocurrencies are secure. For example, the information is stored on computers all over the world, rather than on central servers. Moreover, all information is stored publicly, resulting in high transparency.
- Potential to become an easily accessible global financial system for developing countries. Through DeFi, an internet connection could suffice to enable use of global financial solutions in the future.

Identified drawbacks:

- Money laundering. Due to the decentralised cryptocurrency system, some may perceive the system as enabling money laundering. Since the system is public, however, transactions can be stored and from that aspect, cryptocurrencies are bad for money laundering. But Malta, for example, was recently grey-listed by the Financial Action Task Force (FATF). Consequently, the Maltese Minister for Finance and Employment has proposed restrictions on the extensive cryptocurrency industry in the country. Whether the finance minister's conclusions are correct we will leave unsaid, but considering the vast resources presently devoted to preventing money laundering worldwide, we see a future regulatory risk for cryptocurrencies. Marketplaces that use verification, however, are at substantially lower risk of money laundering because the customer is automatically identified. Overall, further regulations for DeFi should be regarded as probable.
- Transaction fees could be high. It costs resources to validate transactions and the cost is leading to higher transaction fees for certain cryptocurrencies.

- If someone loses their private key (password) for Bitcoin and it has not been saved, the person could lose their virtual wallet. For fiat currencies, people can eventually gain access to their money by identifying themselves at the bank. This is possible on certain cryptocurrency exchanges, but an estimated 20% of all bitcoins in the world are in accounts that no one can access. That is about equal to Apple's market cap. We assume that lost keys (passwords) will be less of a problem in the future, as technological development is advancing.
- Cryptocurrencies are difficult to hack, but marketplaces where cryptocurrencies are exchanged can be hacked. About 1 million bitcoins, equal to about 5% of all bitcoins, have been stolen thus far through hacker attacks against marketplaces, for example.
- An energy-intensive and environmentally harmful business. Bitcoin's method of handling transactions requires a great deal of energy, for example. Even though only a fraction of the total number of transactions worldwide are made through Bitcoin, the system uses as much electricity as the entire country of the Netherlands. If, in theory, Bitcoin used all the green electricity in Stockholm, the rest of the city would still have to use the dirty electricity that is left over. Once it enters the grid, it is the same electricity regardless of where it comes from. As long as miners do not build up new sources of energy, it is normally environmentally destructive electricity that is consumed, even if it is labelled green. Finally, Proof of Work also leads to a huge number of worn-out computers.
- Volatility. As an example, Bitcoin lost more than 80% of its value relative to USD during the period of 2017-2019. Ethereum lost more than 90% during the same period.
- Several users of cryptocurrencies choose to circumvent tax payments, since the payments themselves can be anonymous.
- Use for criminal purposes. While there are reports that only 2% of cryptocurrency transactions are used for criminal purposes, critics argue that the data is based on inclusion of fake transactions and that the real figure is considerably higher, which we assess as likely.

Overall, we believe cryptocurrencies are here to stay and will grow more influential going forward. We believe smart contracts and decentralised financial solutions will become significant in the future. Although launches of these products have already begun, we believe it will be many years before the applications are sufficiently user-friendly and secure for widespread use among ordinary people. Ease of use is essential for new applications to break through and these applications are currently too complex. The opportunities for cryptocurrencies are many, but so are the problems. We believe it is unlikely that cryptocurrencies will be banned, but highly likely that they will be further regulated.

## The business

Quickbit has the following two business areas:

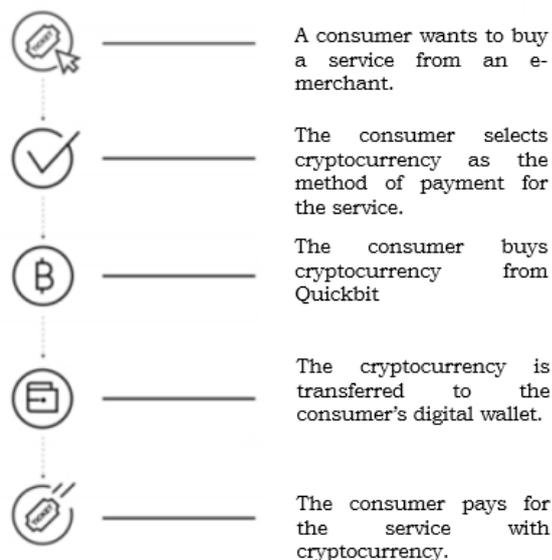
- **Affiliate:** In the Affiliate business, merchants' end consumers are directed to Quickbit to buy cryptocurrency that they can use to pay for services. Quickbit sells cryptocurrency to the consumer, which they then select as payment for goods/services.
- **B2C:** This area includes, for example, a consumer app that allows currency exchanges as well as a Visa debit card.

At present, Quickbit's business consists exclusively of affiliation within i-gaming. However, we expect strong growth in the B2C business this year. Launch of the B2C solutions is planned for this summer.

### Affiliate

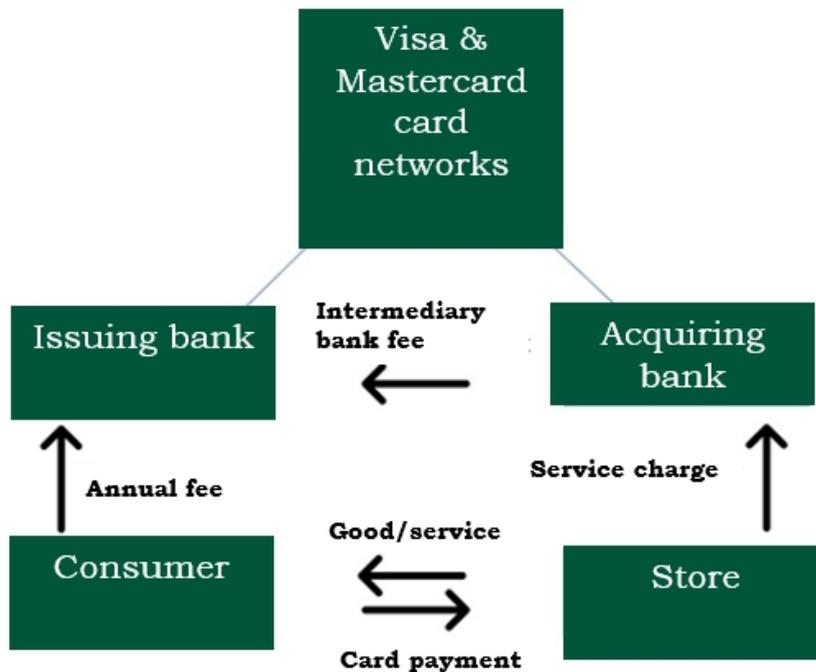
A flowchart of Quickbit's Affiliate business is shown below. A consumer pays with their ordinary debit card. Quickbit then converts the payment to cryptocurrency, which the consumer receives. The consumer pays the merchant with cryptocurrency, which Quickbit subsequently converts back to fiat currency. The merchant can thus receive fiat currency and the consumer pays with fiat currency, but there is a conversion in between, so that the actual inflow to the merchant takes place in cryptocurrency.

#### Affiliate product transaction flow



There are three main reasons that businesses use this solution from Quickbit. First, with this solution, stores receive payment faster. The time from when payment is made by the consumer and received by the seller is the time it takes for the issuing bank and the acquiring bank to execute the transaction.

## Card payments flow chart



This normally takes up to three days, but can take as long as a week. When payment is made in cryptocurrency, however, the seller often receives the money after only 20-30 minutes. The brief collection period improves merchants' liquidity. Moreover, there is no difference between weekdays and holidays/weekends in the time it takes to receive payments in cryptocurrency.

The second reason is that chargebacks are mitigated. The store or e-merchant pays a fee to receive card payments. This fee varies a great deal depending on the percentage of chargebacks. Chargebacks involve consumers trying to cancel purchases paid for by card and receive a refund. The consumer may, for example, claim that someone has hacked the card online and made the payment, or that someone has stolen the physical card and made the payment. Chargebacks are a bigger problem for some companies than many people believe.

Refunds, investigations, administration and the like make chargebacks costly. Juniper Research, for example, estimates that every dollar that leads to a chargeback costs USD 2.4 due to all the ancillary costs. We assume, however, that this figure is considerably higher for merchants that sell physical products, due to high packaging and shipping costs. Merchants in the online casino business, which are currently Quickbit's only customers, should thus have a somewhat lower basic cost than stores that sell physical merchandise. The cost is also affected by how high the percentage of chargebacks is relative to total payments made to a merchant.

To pressure merchants to prevent chargebacks, Visa and Mastercard apply draconian rules and limits on the percentage of payments permitted to be charged back without taking action. For Visa and Mastercard, the limit is as low as 0.9-1.0%.

If a merchant has customers that make chargebacks above 0.9-1.0%, the merchant may be categorised as "high risk" by Visa and Mastercard. If this happens, the merchant is required to report the actions they are taking to limit chargebacks every month. The monthly cost of the mandatory reports is USD 50-300 and is paid to the payment networks. If a merchant fails to submit a report, they can be charged up to USD 1,000 per day. If the problems are too severe, the merchant's acquiring bank can go so far as to cancel the payments agreement.



*Visa and Mastercard impose harsh penalties on merchants with a high percentage of chargebacks.*

There are thus considerable incentives, in addition to the direct costs, to keep the number of chargebacks down. Estimates of the cost of chargebacks to global e-commerce vary. Most estimates set the cost at about 1.5% of all trade. There is considerable variation among sectors and online gaming seems to have a very high percentage of chargebacks, but we have not found any detailed estimates for this figure.

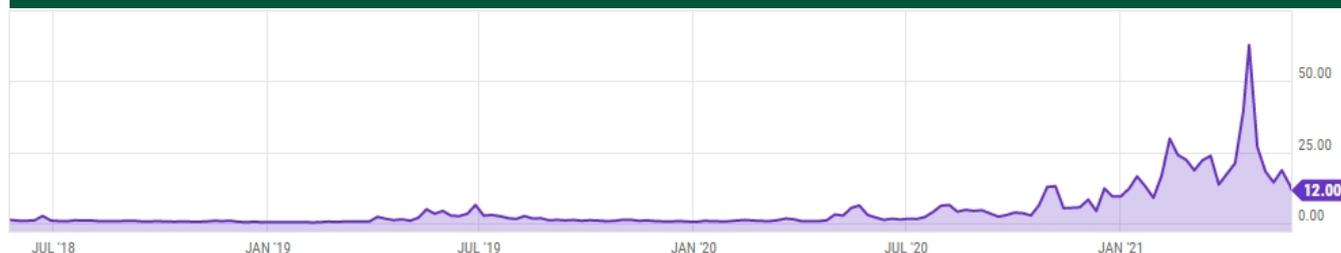
We have summarised below the costs that we estimate an i-gaming company pays to use Quickbit’s Affiliate product. Many of Quickbit’s transactions are made in the cryptocurrency Litecoin, which entails a low spread and transaction fee. As shown, the costs far exceed the global cost of chargebacks (1.5%). We thus do not believe it is particularly likely that the Affiliate solution will have major impact outside the sectors that are severely affected by chargebacks.

#### Cost to businesses to use the Affiliate product

	SEK	%
Deposit	100	100
Fee to Quickbit	4 SEK	4%
Spread	X	X%
Cryptocurrency transaction fees	X	X%
<b>Total</b>	<b>4+XSEK</b>	<b>4+X%</b>

Historically, the transaction fee for Bitcoin has been about USD 1, but more transactions have been made in pace with the rising popularity of Bitcoin, which drives up the fees. This fee is charged to the merchant that uses Quickbit’s services, but Quickbit has an inventory of bitcoins and therefore does not need to execute all transactions out on the blockchain and thus does not necessarily have to pay the fee for all transactions. The transaction fee is thus lower than shown on the chart. Exactly how much lower we do not know, but we estimate about one tenth.

## Transaction fee in USD



We also assume, as previously mentioned, that Quickbit primarily uses the cryptocurrency Litecoin for its cryptocurrency transactions. The fees for Litecoin are much lower, currently as low as around USD 0.02 per transaction. Such a low sum should be virtually insignificant to Quickbit's customers.

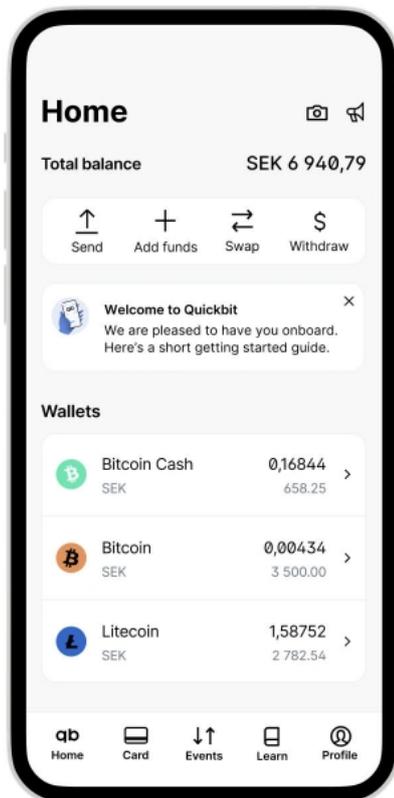
We assume that the third reason to use Quickbit's Affiliate solution is to facilitate payments in unregulated markets within betting. It can be problematic to pay using ordinary card transactions in these markets, while cryptocurrency payments are easier. Making it possible for consumers to pay should naturally generate strong willingness to pay among the merchants. In our view, this may be the main reason for using Quickbit's Affiliate solution.

## B2C

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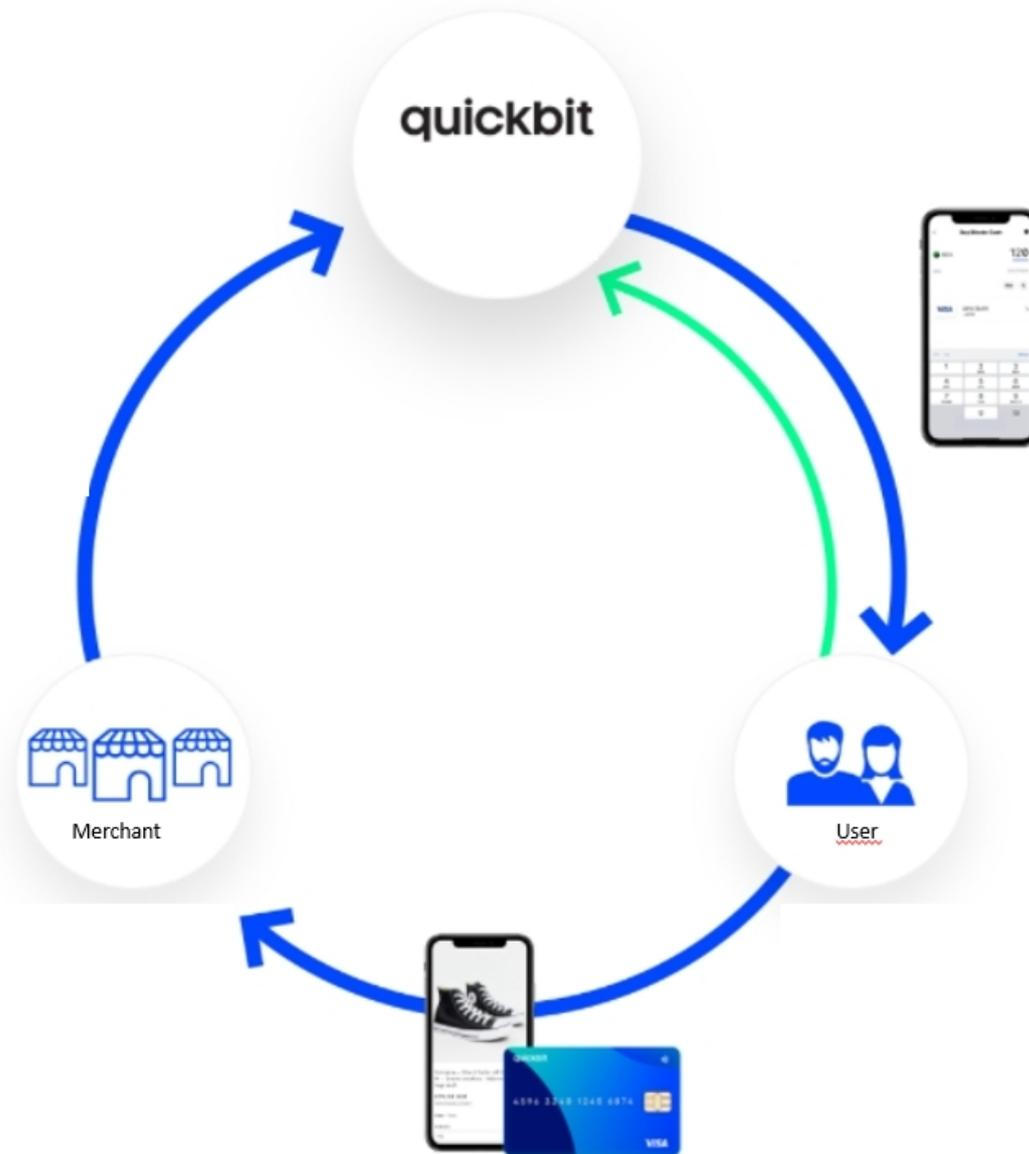
At present, Quickbit has no revenues in the B2C segment, but has big ambitions for future growth. Quickbit's app is in the beta phase right now and the company expects to launch it within the near future. Quickbit is also going to launch a debit card with Visa that will allow consumers to keep cryptocurrency with Quickbit and pay with their card wherever ordinary Visa cards are accepted.

## The Quickbit app



Consumers can use the app to buy, send, receive and store cryptocurrencies. Ten thousand people have signed up for early access to the app on Quickbit's website, which we think is very impressive.

In addition, Quickbit is achieving synergies between its merchant business and B2C. Through its Affiliate business, Quickbit has an extensive list of people who have been involved in a cryptocurrency payment and may thus be interested in Quickbit's app. Consequently, we believe Quickbit can achieve good ROI on its investments in marketing towards this group.



Quickbit's revenues from the app will be generated by transaction fees. The price picture is as yet unknown, but we believe it will be similar to the competition. We have, for example, compared the fees charged by Coinbase for B2C products to estimate Quickbit's potential revenues in this vertical. The fee structure for Coinbase is relatively complex, but totals about 3% for transactions. There are companies that charge considerably higher fees – listed company Goobit, for example, charges a transaction fee of 5–9%. We estimate that Quickbit will initially charge about 3%, as we expect margin pressure on Goobit in the future. Cryptocurrencies are a global means of payment and we do not believe charging 5–9% when other major providers are charging 3% is sustainable in the long term.

The 3% fee is somewhat lower than for the Affiliate business. We do not, however, see a problem with the lower margin linked to Quickbit's profitability because the variable costs are low, since they are based on software. The turnover rate thus becomes more important to profitability than the gross margin. As a theoretical example, profitability is considerably better for 50 transactions at a 10% margin than for 10 transactions at a 90% margin, all other things being equal.

The idea behind Quickbit's app is for it to work as an ecosystem for cryptocurrency financial solutions in the future. Over the longer term, Quickbit's goal is to be able to integrate DeFi solutions in the app. We see DeFi as an exciting area and are pleased that Quickbit's ecosystem will facilitate development within the segment.

## Competition

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The competitive situation for financial services involving cryptocurrencies is very different from the ordinary market that deals in fiat currencies. Companies operating in the ordinary financial services market compete with local operations to a greater extent. Swedbank, for example, competes with Handelsbanken for mortgage business, but not with Bank of America.

Cryptocurrency, on the other hand, is decentralised and payments are easily made across national borders. It is thus easier to use a cryptocurrency-based financial service in the US from Sweden than one based on fiat currencies. The global presence creates opportunities for Quickbit, but also greater competition.

Consequently, one of the larger players we consider a competitor is the US company Coinbase. The company was recently listed on the US stock exchange and has an enterprise value of about SEK 400 billion, about equal to the valuations of the largest companies in Sweden.

Moreover, we see clear economies of scale in the business Quickbit is operating. Independently of the size of revenues, companies need to finance things like compliance and software development. Because the business is software-based, the marginal cost of additional revenues is very low. For this reason, it becomes more likely that a few providers will become dominant, like Google and Facebook for example. That notwithstanding, we believe a local presence has its advantages due to e.g., language barriers and local compliance issues. As well, users can of course use Swedish in the app and/or on the website.

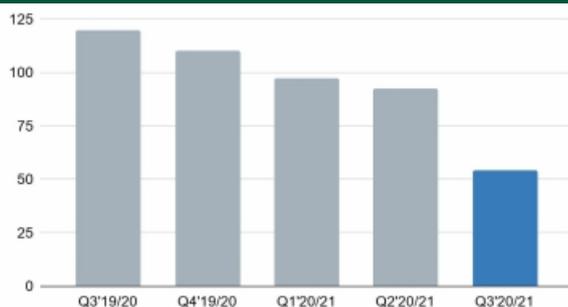
Local competitors include Safello (owns the safello.com marketplace), and Goobit (the bt.cx marketplace). Safello and Goobit are more dedicated marketplaces for exchanging cryptocurrency, while Quickbit is moving towards developing an ecosystem for cryptocurrency payments. Furthermore, Safello and Goobit do not provide Quickbit's B2B solutions targeting i-gaming. When it comes to areas of application, we therefore find that Quickbit has the advantage. We believe margin pressure will occur within Goobit's and Safello's solutions and thus have a favourable view on Quickbit's greater diversification.

Finally, we find that it is relatively easy for individuals to switch marketplaces for their cryptocurrency transactions. This shrinks the moats around the business. In our judgement, however, the debit card that Quickbit is launching, for example, has somewhat greater lock-in effects because it takes more effort to acquire a new debit card than it does to switch websites.

## Financial

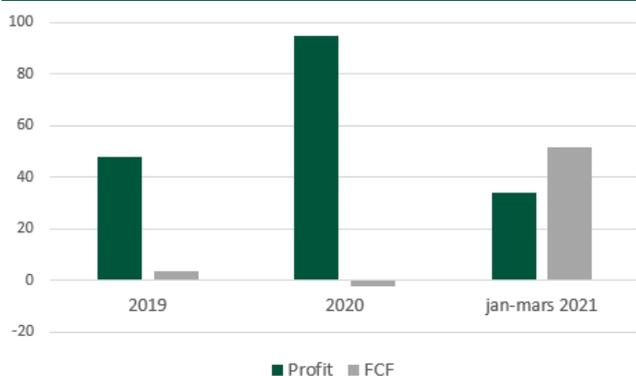
Quickbit's revamp of the business in the last year has had significant financial impact. The company has had a "rolling reserve" of working capital that is about to be phased out. The rolling reserve has involved Quickbit depositing a large sum of cash with acquiring banks as collateral for the payments made to i-gaming merchants. This made the business very capital-intensive and difficult to scale. The rolling reserve is now being phased out and converted to cash flow, as shown on the chart below. We are in favour of the transformation the company is now carrying out.

Quickbit's rolling reserve, SEKm



Quickbit has shown a profit in recent years, but considerably poorer cash flow due to the rolling reserve. As shown on the table below, the situation was the reverse in Jan-Mar of this year and cash flow was instead considerably higher than profit. We expect this trend to continue until the rolling reserve has been depleted. It is unclear whether the entire rolling reserve will be converted to cash flow, but both we and the company believe that it will.

Quickbit's cash flow and profit, SEKm



### Net cash

Quickbit is currently in a strong cash position. In addition to being cash flow-positive, the company's net cash reserves amount to SEK 117 million. That is equal to about 10% of the company's market value. In our judgement, Quickbit has very good opportunities to scale up its business, further develop the app and increase costs, without raising additional capital.

## Estimates

We estimate the following for Quickbit:

- Gross margin for the Affiliate segment over the long term of 3%; 4% for the rest of 2021.
- Gross margin for the B2C segment over the long term of 1.5%; 3% for the rest of 2021.
- Sales for the Affiliate segment of SEK 5,320 million in 2026.
- Sales for the B2C segment of SEK 2,176 million in 2026.
- CAC (Customer Acquisition Cost) for B2C of SEK 500 over the long term.
- B2C transaction volume of about SEK 500 initially per person and quarter, rising to SEK 2,500 in 2025.

Quickbit financial estimates							
	2020	2021	2022	2023	2024	2025	2026
<b>Revenue mkr</b>	2953	3817	4986	6154	6643	7151	7496
<b>Revenue growth</b>	0%	29%	31%	23%	8%	8%	
<b>Affiliate mkr</b>	2953	3737	4144	4788	5012	5236	5320
<b>Revenue growth</b>	17731%	339%	45%	16%	5%	4%	2%
<b>B2C mkr</b>	0	80	842	1366	1631	1915	2176
<b>Revenue growth</b>	0%	0%	953%	62%	19%	17%	14%
<b>Gross margin</b>	3,2%	4,1%	3,0%	2,8%	2,7%	2,6%	2,6%
<b>EBIT mkr</b>	34,5	64	56	75	75	79	82
<b>EBIT-marginal</b>	1%	2%	1%	1%	1%	1%	1%
Alternative EBITDA-margin	36%	41%	38%	43%	42%	43%	43%
<b>EV/Sales</b>	0,2	0,2	0,1	0,1	0,1	0,1	0,1
<b>EV/EBIT</b>	20	10,6	12,1	9,1	9,1	8,5	8,3
<b>Net profit mkr</b>	26	54	44	59	59	62	64

### Revenue per customer

We expect Quickbit's transaction volume per user and quarter to amount to SEK 500 initially and to rise to SEK 2,500 per year by 2025. Coinbase is the largest cryptocurrency marketplace worldwide. On average every retail user trades on their platform to a value of about SEK 5,500 every quarter. Including institutional investors, transaction volume is ten times higher, at SEK 55,000. However, we do not expect institutional investors to use Quickbit instead of e.g. Coinbase, which is an older, more well-established platform with a longer history of safely storing customers' money.

Coinbase has more features than Quickbit will have in the beginning and we therefore expect Quickbit's transaction volume per user to be considerably lower at first, at about SEK 600 per quarter.

The current hype surrounding cryptocurrencies is leading to higher transaction volumes per user. The table below showing transaction volume for Coinbase's retail investors also indicates that transaction volume is abnormally high at the moment. Transaction volume in Q4 was more than twice as high as the average since 2018.

## Coinbase transaction volume



We therefore estimate that when interest normalises, the effect on Quickbit will be to push transaction volumes down. On the other hand, we expect Quickbit to introduce more features, such as the debit card and DeFi solutions. Accordingly, we estimate that total transaction volume will gradually increase for Quickbit to about SEK 2,500 per user and quarter in 2025.

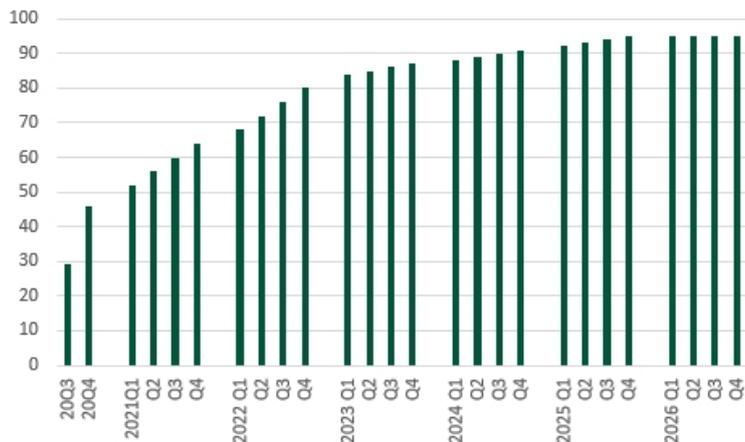
However, we do not estimate that ordinary card transactions using cryptocurrency will become popular among ordinary people in the near future. Such a development would be positive for Quickbit based on the scenarios we forecast. Paying with cryptocurrencies will involve extra charges that we do not believe ordinary consumers are willing to pay. Faced with the choice of buying something in a store that costs SEK 100 if you pay with an ordinary card or SEK 103 if you pay with cryptocurrency, we believe most people will choose to pay with an ordinary card. We do believe, however, that “crypto evangelists” who do not trust the financial system as it is today will be willing to pay the fee.

For the Affiliate business, we are forecasting revenues per B2B user until autumn 2021 at the same level as the first three months of 2021, i.e., about SEK 18 million. But uncertainty is relatively high here, as revenues per merchant depend to a great extent on which major merchants use Quickbit’s services. This is illustrated by the fact that revenues per merchant for the last three months of 2020 were only about SEK 5 million, but jumped to SEK 18 million for the three following months.

The German and Dutch i-gaming markets are facing regulations in the autumn, which could reduce Quickbit’s revenues in these markets. We therefore expect revenues per merchant to be reduced from the current SEK 18 million to SEK 14 million from Q4 onwards. We consequently estimate a somewhat lower EBIT for 2022 than for 2021.

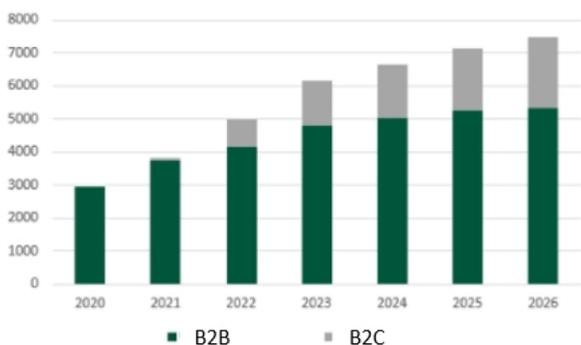
We also expect Quickbit to add four new merchants per quarter until 2023. Thereafter, growth will successively decline up to 2026, when we expect a stable number of 95. It should be noted, however, that transaction volumes for the Affiliate product are not dependent upon interest in cryptocurrencies, but rather on the turnover on casino customers’ websites.

### Number of merchants in the Affiliate solution



Our revenue estimates for B2C and B2B are illustrated in the chart below. B2C revenues have the potential to be considerably higher, but we believe growth will be inhibited by global competition.

### Sales, B2B and B2C, SEKm



A payment platform has economies of scale and it is relatively likely that a few major providers will dominate the market. Especially because this involves guaranteeing the safety of people’s money, we consider it likely that larger providers will have favourable conditions for continuing to grow their market shares. Strong brand awareness will contribute to consumers’ sense of security.

### Costs

Quickbit is in an expansive phase and we believe personnel costs are going to significantly increase going forward. We estimate that Quickbit will grow the workforce in areas such as compliance, support and sales. The company had more than ten job advertisements out at the end of May, which reinforces our thesis.

Moreover, we expect additional customer acquisition costs (CAC) to bring customers to the B2C segment. Naturally, there are no cost figures at present, but we base our estimate on the competitor, Coinbase.

Thus far, 90% of Coinbase’s customer inflow has been organic, which means that the inflow has occurred without targeted marketing. Coinbase is the leading market provider though and should thus, naturally, attract new customers much more easily than Quickbit, for example. We expect organic inflow to be low for Quickbit and that Quickbit will instead use marketing to attract customers.

Coinbase’s CAC was only SEK 80 per person in Q1 21. We estimate this figure will rise for Coinbase when the entire cryptocurrency market cools off from the current interest. Due to this, combined with Coinbase’s significantly strong brand, we expect net growth in new users for Quickbit to instead cost about SEK 500 per user. However, 10,000 consumers have already signed up for early access to Quickbit’s forthcoming app and we therefore expect CAC to be low at first but rise relatively swiftly to a level around SEK 500 per user.

Other external costs were a full SEK 20 million for Quickbit in Jan–Mar, but we expect this to decrease significantly going forward. The Jan–Mar report included items that we expect to be temporary, such as costs for consultancy, legal advice and transition to IFRS. The “acquirer’s margin”, a sales-based commission related to acquiring banks was also included. In the future, this will be accounted for as “purchases of goods” and the company also expects it will be possible to reduce this over time. We therefore expect other external costs to be in the range of SEK 5-10 million in the future.

## Margins

Transaction platforms like Quickbit’s B2C solution have the potential to generate very high margins. Nordnet, for example, had an EBIT margin of 75% in Q1 21 and Coinbase had a margin of 55%. The services are based on automated software and additional transactions thus cost the company very little. If a high transaction volume is achieved, margins can be very high.

Quickbit recognises the entire amount the customer buys as “revenue” and the gross margin is therefore only a few percent. We instead consider gross profit (i.e., what Quickbit receives for each transaction) to be “sales” and divide this by operating profit, which gives us an adjusted EBIT margin that better reflects the accounting applied by large providers. At this point in Q1, the adjusted EBIT margin was already 25% and we estimate it will increase significantly during the year when B2C begins to contribute revenues. We expect the following development of the alternative EBIT margin going forward.

### EBIT margin

	2021	2022	2023	2024	2025	2026
Alternative EBIT-margin	42%	42%	48%	50%	47%	47%
Reported EBIT-margin	2%	1%	1%	1%	1%	1%

*The “reported EBIT margin” above is the margin we assume will be reported. The “alternative EBIT margin” is EBIT divided by gross profit.*

Quickbit’s gross margin is currently relatively high, considering the company’s accounting method, at above 4%. We expect a gross margin for the B2C segment, which will be introduced in 2021, of about 3%. The Affiliate solution is more unique and, in our assessment, it involves more work for B2B customers to switch solutions that it does for B2C customers. We therefore believe the Affiliate solution can generate a higher margin.

We assume that cryptocurrency transaction companies are facing price pressure similar to that applicable to brokerage fees on equity sales. However, we do not expect the price pressure to move to the same low levels as for equity sales because we believe Quickbit will be offering some solutions within DeFi that should generate higher margins. We also estimate that cryptocurrencies are going to require comprehensive compliance initiatives in the future, which should keep prices up. Further staff recruitments in the Legal department are going to be needed for the Affiliate solution to interpret the scope of action in unregulated markets. Finally, cryptocurrency is a decentralised solution. This means that the marketplaces that store cryptocurrencies with proven security should be able to command a premium that may work as a moat and keep prices up. It is more difficult to contact a central authority if a problem arises. Although there are factors that push back against price pressure, we estimate that the gross margin will eventually move down towards 3% for the Affiliate business and 1.5% for the B2C segment.

## Valuation

The following apply to our valuation of Quickbit:

- WACC 12 %.
- Fair value SEK 12–13 per share. The valuation is based on a DCF analysis.
- Our DCF model has a forecast period up to 2025, a stabilisation period to 2029 and thereafter a terminal value.

WACC		DCF Quickbit	
Risk free nominal rate	0,40%	Diskonteringsränta	12%
Risk premium	7,00%	PV of FCF m	360,4
Extra risk premium	3,00%	Terminal value m	691
Beta	1,15	Net debt m	-117
Cost of equity	11,96%	Fair value m	1169
Cost of debt (pre-tax)	3,00%		
Tax rate	22,00%	EV	679
Target debt/(debt + equity)	10,00%	Market cap	796
<b>WACC</b>	<b>12,48%</b>	Number of shares m	88
		Value per share DCF	13
		Current share price SEK	9
		Upside	47%

We use a WACC of 12% because we see elevated risk in Quickbit's business. The sector is new, the competition is fierce and the share is volatile. We have provided a sensitivity analysis below showing how our valuation would have been affected by changes in WACC and our perpetual growth rate in the DCF model. As shown in the table below, the impact is relatively great because a large proportion of the value is found in our terminal value.

### Sensitivity analysis WACC and perpetual growth

		Perpetual growth rate				
		1,50%	2,00%	2,50%	3,50%	4,00%
WACC	10%	14,8	15,4	16,2	339	384
	11%	13,6	14,1	14,7	297	330
	12%	12,7	<b>13,1</b>	13,6	264	289
	13%	11,9	12,2	12,6	237	257
	14%	11,2	11,5	11,8	215	231

### Peer valuation

Many of Quickbit's peers are not listed on the stock market, but several, including Kraken and Etoro, are targeting an IPO by next year at the latest. There are however, a relatively high number of listed cryptocurrency companies in Sweden. A peer valuation follows. It should be noted that Quickbit has recently revamped its business model, which makes historical valuation multiples less relevant. Goobit and Safello are Swedish companies that concentrate primarily on exchanging cryptocurrencies, while Coinbase is a global player with a cryptocurrency ecosystem.

## Peer-valuation miners

Bolag	Mcap MUSD	Gross margin	EV/S (R12)	EV/EBITDA (R12)
Quickbit	120	4%	0,4	22
Riot Blockchain	28276	78%	78,3	-
Hive Blockchain Tech	7964	40%	39,8	-
Hut 8 Mining	4313	24%	24,1	-
<i>Average</i>	<i>10 168</i>	<i>37%</i>	<i>35,7</i>	<i>22</i>

Bolag	Historical sales growth 1 year	EBITDA-growth 1 year	ND/EBITDA	Profit margin
Quickbit	neg	neg	-2,8	1%
Riot Blockchain	291%	945%	-	-3%
Hive Blockchain Tech	9%	-74%	-	79%
Hut 8 Mining	-32%		33,4	108%
<i>Average</i>	<i>89%</i>	<i>436%</i>	<i>15,3</i>	<i>37%</i>

Based on the peer valuation, we conclude that Quickbit has a lower valuation than its Swedish competitors. Safello and Goobit operate in the B2C segment, which indicates that an upward revaluation to higher multiples is not impossible if Quickbit succeeds with its consumer products. Coinbase's valuation is also higher, but we think this is entirely reasonable since the company is the dominant player in the B2C cryptocurrency market.

In the following, we have also included crypto miners. Listed companies in crypto mining are relatively numerous and although they are not absolute peers, they still provide an indication of valuation in the sector.

## Peer-valuation miners

Bolag	Historical sales growth 1 year	EBITDA-growth 1 year	ND/EBITDA	Profit margin	vinst-marginal
Quickbit	neg	neg	-2,8	1%	
Goobit	40%	n.m.	-2,3	0%	
Safello	53%	27%	-5,4	1%	
Coinbase	306%	1233%	-1,4	20,5%	
<i>Average</i>	<i>133%</i>	<i>630%</i>	<i>-3,0</i>	<i>6%</i>	

Bolag	Mcap MUSD	Gross margin	EV/S (R12)	EV/EBITDA (R12)
Quickbit	120	4%	0,4	22
Riot Blockchain	28276	78%	78,3	-
Hive Blockchain Tech	7964	40%	39,8	-
Hut 8 Mining	4313	24%	24,1	-
<i>Average</i>	<i>10 168</i>	<i>37%</i>	<i>35,7</i>	<i>22</i>

We have also carried out a peer valuation compared to fintechs like Paypal, which has begun to accept cryptocurrency payments, as well as Mastercard and Square. The table below shows how high valuations can reach for successful fintechs. At present, however, Quickbit has a long way to go before the company comes close to the businesses of these global giants.

## Peer-valuation fintech

<b>Bolag</b>	<b>Mcap MUSD</b>	<b>Gross margin</b>	<b>EV/S (R12)</b>	<b>EV/EBITDA (R12)</b>
PayPal Hldgs	326 704	52%	14	60
Mastercard A	364 002	100%	24	42
Square A	107 526	21%	8	253
<i>Average</i>	266 077	58	15	118
	<b>Historical sales growth 1 year</b>	<b>EBITDA-growth 1 year</b>	<b>ND/EBITDA</b>	<b>Profit margin</b>
PayPal Hldgs	27%	59%	-0,6	23%
Mastercard A	-9%	-14%	0,6	42%
Square A	156%	50%	-1,4	3%
<i>Average</i>	58%	32%	-0,5	23%

## Risks

### Regulation of the gaming sector

At present, Quickbit's customers are exclusively in the i-gaming sector. The i-gaming market is continuously regulated and this could impact Quickbit's revenues. Regulatory amendments are going into effect this autumn in both Germany and the Netherlands and we assume this will have adverse impact on Quickbit's revenues.

### Price pressure in cryptocurrency payments

Just as online equity sales have experienced heavy price pressure, the price of cryptocurrency payments may go down. The brokerage fee for online equity trades is currently only 0.1%, while the transaction fee for cryptocurrencies amounts to about 3-9%. In our estimation, some price pressure is going to happen, but the implementation of more sophisticated DeFi solutions will mitigate the price pressure to a certain extent.

### Regulations against cryptocurrency payments

A regulation like the one in China, which prohibits fintechs from handling cryptocurrencies, would destroy Quickbit's entire business model. However, we believe there is very little risk that this will occur. Conversely, we estimate that increased regulation in the form of compliance standards for cryptocurrency payments are highly likely. We believe this will lead to higher costs for cryptocurrency payments, but will not threaten Quickbit's business model in any way.

### Global competitors

Companies working in fintech for fiat currencies are subject to regional competition to a greater extent, while cryptocurrency companies are exposed to more global competition. Cryptocurrencies are structured so that national borders are not a problem and international transfers cost the same as domestic transfers. Cryptocurrencies are global. We therefore see a risk that Quickbit's B2C business may encounter fierce global competition from international giants.

## Ownership structure

The largest shareholder in Quickbit, in terms of equity and votes, is Mathias Jonsson van Huuksloot, with 11.5% of equity and votes. The second-largest shareholder is Avanza Pension, with 8.6% of equity and votes. Front Ventures AB represents 7.6% of equity and votes. Intergiro Intl AB is the fourth-largest shareholder, with 3% of equity and votes. Abelco Investment Group represents 2.7% of capital and votes in the company. A total of 79% of share capital is made up of investors (individuals and legal entities) registered in Sweden.

### Board of directors

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The current board of directors of Quickbit is composed of 1+4 regular directors, who are presented below.

#### **Mikael Karlsson, chair**

Elected to the board in 2021, chair since 2021. Other board service: Director of Spiltan Fonder AB and Stavdal Invest AB.

#### **Karin Burgaz, director**

Elected to the board in 2021. Other board service: Chair of Carnegie Fonder AB and Swemas AB, director of companies including Smartsign AB, Luwasa Greenstyling AB, Loxodonta AB, Nordic Cross Asset Management AB, CAAM Fund Services AB and Selfcheck AB.

#### **Jan Frykhammar, director**

Elected to the board in 2021. Other board service: Chair of Aspia AB, director of companies including Nordic Semiconductor AS, ITAB Shop Concept AB, OX2 AB, Telavox AB and Clavister Holding AB.

#### **Hammad Abuiseifan, director**

Elected to the board in 2021. Other board service: Director of Icon Management AB, Louqe AB, Cellmax Consulting AB and CellMax Tech AB.

### Management

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The Quickbit executive management team is as follows:

#### **Serod Nasrat**

CEO. Employee since 2018.

#### **Simon Afeworki**

Head of Finance. Employee since 2019.

#### **Minou Britmer**

Head of Accounting. Employee since 2019.

#### **Ejub Bicic**

Chief Product Officer, Interim Chief Technology Officer. Employee since 2019.

#### **Johan Björklund**

Chief Compliance Officer. Employee since 2020.

## ESG analysis

*Quickbit has focused a great deal in recent years on working proactively with ESG by, for example, including the compliance department in executive management. These services simplify the use of cryptocurrencies on the everyday level, which increases financial inclusion and has the potential to produce social benefit.*

### Environment

Creating and using cryptocurrencies demands massive amounts of energy. However, sustainable sources of energy are primarily used in the creation of and transactions with cryptocurrencies. Overall, however, cryptocurrencies have negative environmental impact. The fourth-most energy-efficient cryptocurrency, Stellar Lumens, and Ethereum, will be launched soon on the Quickbit platform, which gives consumers the option to reject less eco-friendly cryptocurrencies.

### Social

Cryptocurrencies have the potential to contribute to financial inclusion because the structure is decentralised, the reach is global and the fees are low. Quickbit's services increase access to cryptocurrencies, which could lead to greater financial inclusion. Furthermore, Quickbit is committed to being an employer that encourages fresh thinking and innovation and urges all employees to achieve their highest potential.

### Governance

There has historically been no legislation applied to cryptocurrencies as there is no connection to either the state or central banks. Recently, the cryptocurrency market has seen the advent of regulations in the form of the EU's fifth anti-money laundering directive, which requires all firms in Sweden to comply with the Swedish Anti-Money Laundering Act. Quickbit has taken a strategic decision to make large investments in compliance and compliance is a permanent component of executive management activities.

## Income statement & cash flow

<b>Income statement SEKm</b>				
	2019/2020	2021E	2022E	2023E
<b>Net revenue</b>	4 614	3 817	4 986	6 154
Other income	9	2	2	2
Cost goods sold	4481	3661	4840	5983
Gross profit	142	158	149	173
Personal expenses	14	32	42	49
Other external costs	27	35	21	21
Other costs	2	0	0	0
<b>EBITDA</b>	99	74	70	89
Depreciation	5	10	14	14
Amortization	0	0	0	0
<b>EBIT</b>	94	64	56	75
Extraordinary items	0	0	0	0
<b>Adjusted EBIT</b>	94	64	56	75
Financial items	0	-1	-1	-1
<b>Result before taxes</b>	94	63	55	74
Taxes	12	13	11	15
<b>Net profit reported</b>	82	50	44	59
<b>Net profit adjusted</b>	82	50	44	59
<b>Cash flow SEKm</b>				
	2019/2020	2021	2022	2023
Net profit reported	82	50	44	59
Items not included in the cash flow	18	10	14	14
Change working capital	-89	86	2	2
<b>Cash flow from operating activities</b>	11	146	59	75
Investments	24	20	20	20
Divestments	0	0	0	0
<b>Free cashflow</b>	-13	126	39	55
Dividends	0	0	0	-40
New share issue	16	0	0	0
Aquisitions	0	0	0	0
Increase/decrease in financial liabilities	0	-4	-4	-4
<b>Cash flow</b>	3	122	35	11
<b>Net debt</b>	-1	-241	-277	-287

## Balance sheet

Balance sheet SEKm				
	2019/2020	2021	2022	2023
<b>Assets</b>	0	0	0	0
Goodwill	0	0	0	0
Capitalized expenditure	32	44	50	54
Other immaterial assets	39	39	39	39
Material assets	1	1	1	1
Inteterst bearing non-current assets	0	0	0	0
Other non-current assets	2	2	2	2
<b>Sum non-current assets</b>	75	87	93	97
Inventory	1	1	1	1
Receivables	3	55	65	75
Other receivables	125	30	30	30
Cash	21	241	277	287
<b>Sum current assets</b>	150	327	372	393
<b>Sum assets</b>	224	414	465	490
<b>Equity and liabilities</b>				
Equity	191	338	377	390
Minority interests	0	0	0	0
<b>Total equity</b>	191	338	377	390
Inteterest bearing liabilities	0	0	0	0
Pensions	0	0	0	0
Deffered tax liabilities	0	0	0	0
Other interest bearing liabilities	0	0	0	0
<b>Total interest bearing liabilities</b>	0	0	0	0
Current financial liabilities	5	5	5	5
Payables	4	6	10	12
Tax liabilities	21	7	5	5
Other current liabilities	3	58	68	78
<b>Sum current liabilities</b>	33	76	88	100
<b>Total equity and liabilities</b>	224	414	465	490

## Key figures

<b>Värdering</b>				
	2019/2020	2021E	2022E	2023E
P/E, justerat	10	16	18	14
P/EK	4	2	2	2
P/FCF	-60	6	20	15
Direktavkastning	0	0	0	0
Utdelningsandel, justerad	0	0	0	0
EV/Sales	0	0	0	0
EV/EBITDA	7	9	10	8
EV/EBIT	7	11	12	9
<b>Tillväxt och marginaler</b>	0	0	0	0
	2019/2020	2021E	2022E	2023E
Revenue growth	63%	-17%	31%	23%
EBIT growth	-	-32%	-12%	33%
EPS growth	-	-52%	-19%	34%
EBITDA margin	2%	2%	1%	1%
EBIT margin	2%	2%	1%	1%
Tax rate	7%	21%	21%	21%
<b>Profitability</b>	0%	0%	0%	0%
	2019/2020	2021E	2022E	2023E
ROE	49%	19%	15%	19%
ROCE	49%	19%	15%	19%
ROICE	0%	0%	0%	0%
	0%	0%	0%	0%
<b>Investment</b>	0	0	0	0
	2019/2020	2021E	2022E	2023E
Investments	24	20	20	20
Investments/revenue	1%	1%	0%	0%
Sales and development expenses/revenue	1%	2%	1%	1%
Inventory/revenue	0%	0%	0%	0%
Receivables/revenue	3%	1%	1%	1%
Payables/revenue	0%	0%	0%	0%
Working capital/revenue	2%	2%	2%	2%
Capital turnover rate	21	9	9	10
<b>Financials</b>				
	2019/2020	2021E	2022E	2023E
Net debt	-1	-241	-277	-287
Solidity	1	1	1	1
Debt level	0	0	0	0
Net debt/EBITDA	0	-3	-4	-3

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Värderingsmetod och ansats för att bestämma motiverat värde skall framgå av analysen och kan variera från bolag till bolag. Väsentliga antaganden för värderingen baseras på vid var tid tillgänglig marknadsdata och ett enligt oss rimligt scenario för bolagets framtida utveckling. Vad gäller risk klassificeras aktien enligt skalan Hög, Medel, Låg utifrån ett antal kända parametrar som är relevanta för bolaget. En generell riktlinje för att klassificeras som låg risk är att bolaget har positivt kassaflöde och att ingen enskild faktor påverkar omsättningen mer än 20%. Motsvarande generella beskrivning av hög risk är att bolaget inte nått positivt kassaflöde alternativt att en enskild faktor påverkar omsättningen mer än 50%.

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